

MEMORANDUM

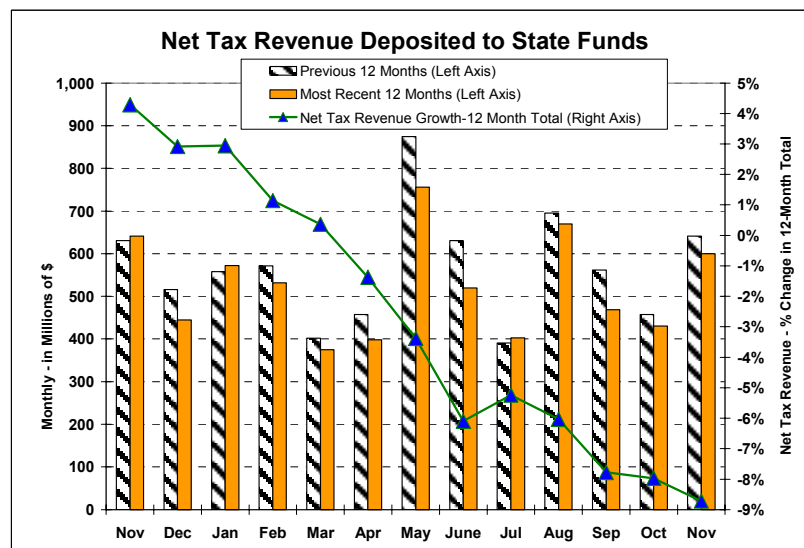
TO: Members of the Iowa Senate and
Members of the Iowa House of Representatives

FROM: Jeff Robinson
Shawn Snyder

DATE: December 22, 2009

Twelve-month Total Net Tax Receipts Through November 30, 2009

The attached spreadsheet presents net State tax revenue deposited to State funds for the 12-month period ending November 2009 with comparisons to the previous 12 months. November 2008 to November 2009 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



Month of November Comparison

November net tax receipts totaled \$600.0 million, a decrease of \$41.2 million (- 6.4%) compared to November 2008. Major taxes and their contribution to the month's change include:

- Individual Income Tax (negative \$6.6 million, - 2.4%) – Gross income tax receipts decreased \$6.1 million in November while income tax refunds increased \$0.5 million. Withholding payments received, a component of gross income tax receipts, decreased 2.8% in November.
- Sales/Use Tax (negative \$4.1 million, - 1.5%)
 - Road Use Tax Fund use tax and fees for new registrations decreased \$2.3 million in November.
 - Gross General Fund sales/use tax receipts increased \$7.0 million and refunds issued for the month increased \$8.8 million (net decrease of \$1.8 million). A calendar issue and a school infrastructure refund transfer issue caused November General Fund net sales/use tax receipts to appear much less negative than was actually the case for the month.
- Corporate Income Tax (negative \$24.0 million, - 827.6%) – After showing positive growth in October, net corporate income tax posted a very negative month. Gross receipts increased \$4.1 million and refunds increased \$28.1 million. Much of the refund increase will likely reverse in December.
- Fuel Tax (negative \$5.8 million, - 15.1%) – Gross fuel tax revenue decreased \$6.2 million while refunds processed in the month decreased \$0.4 million. Deposit timing issues may have negatively impacted November 2009 fuel tax receipts.
- Cigarette & Tobacco Taxes (negative \$0.8 million, - 4.4%) – Economic conditions and a \$0.62 per pack federal tax increase, effective April 1, 2009, are providing downward pressure on cigarette sales.
- Gambling Tax (positive \$2.8 million, 15.6%) – A deposit-date calendar issue caused gambling tax revenue to be positive despite another down month for Iowa's casinos. Total adjusted gross revenue for Iowa's 17 State-regulated gambling facilities decreased 4.6% in November 2009, compared to November 2008, and gambling tax revenue growth has now been negative for nine consecutive months.

Year-over-Year Comparison – Net Tax Revenue

During the 12-month period ending November 2009, net revenue from all taxes deposited to State funds totaled \$6.167 billion, a decrease of \$589.2 million (- 8.7%) compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (negative \$239.6 million, - 8.2%) – The rate of individual income tax receipt growth has decreased significantly since peaking in May 2008 at 11.8% year-over-year. The processing of tax year 2008 tax returns during the spring of 2009 accelerated the decrease. Withholding payments to the State decreased \$6.8 million over the past 12 months. Transfers of withholding from unemployment payments increased \$18.2 million while transfers from State payroll, retirement, and other funds increased \$10.8 million. Deposits from private sector employees and employees of public entities not part of the State accounting system fell \$35.7 million during the past year. Over the previous 12 months (ending November 2008), that amount was positive \$147.7 million.
- Sales/Use Tax (negative \$163.7 million, - 7.2%) – Net sales/use tax receipts have been down 11 the past 12 months compared to the same month the previous year and the

annual percent growth has fallen from positive 6.0% at the end of October 2008 to negative 7.2% at the end of November 2009.

- Corporate Tax (negative \$108.6 million, - 34.2%) – Net corporate income tax totaled \$208.5 million for the 12 months ending November 2009. The 12-month total peaked in June 2008 at \$371.9 million, so net corporate tax revenue is 43.9% below the latest peak. During and after the 2001 recession, net corporate tax receipts fell 68.8%, peak to trough.
- Fuel Tax (negative \$9.0 million, - 2.0%) – Net motor fuel tax revenue has been weak the past twelve months, likely the result of decreased economic activity caused by the recession. According to Department of Revenue fuel sales reports, over the most recent 12-month period Iowa taxable gasoline/ethanol gallons sold increased 1.5% while taxable diesel sales were down 8.5%, the thirteenth consecutive month showing a decline in annual taxable diesel sales.
- Gambling Tax (positive \$0.4 million, 0.1%) – Despite expansions of casinos in Clinton and Dubuque, two changes providing boosts to year-over-year gambling growth in Iowa; gambling tax revenue is flat year-over-year, and adjusting for a November 30 deposit, tax revenue remains negative over the past 12 months. According to Racing and Gaming Commission statistics, 12 of Iowa's seventeen casino/track locations reported negative annual adjusted gross revenue (AGR) growth for the 12-month period ending November 2009. The AGR growth for all facilities was negative 2.7% over the past 12 months. Excluding the two expanded facilities, growth was negative 5.3%.
- Cigarette and Tobacco Tax (negative \$21.2 million, - 8.5%) – Economic conditions, Iowa's indoor smoking ban, and a recent increase in the federal cigarette tax are potential contributors to the tax revenue decline.
- Insurance Premium Tax (negative \$29.2 million, - 26.9%) – The decline in insurance premium tax revenue is the result of expanded use of tax credits, including credits earned through an insurance company's own activities as well as tax credits purchased from others.

Tax Spotlight – Racing and Gaming Tax

Pari-mutuel wagering and gambling (excursion boats, gambling structures, and racetracks) are taxed under the authority of Chapter 99D and Chapter 99F, Code of Iowa. Taxes applied to pari-mutuel wagering and gambling are as follows:

- The pari-mutuel tax on horse racing is 6.0% of the gross sum wagered. However, if the gross sum wagered is less than \$90.0 million then the net tax is 0.0%. If the gross sum wagered is \$90.0 million or above, the net tax is 1.0% due to a tax credit based on the gross sum wagered. There is currently one establishment in Iowa that has horse racing.
- The pari-mutuel tax on dog racing is 4.0% of the gross sum wagered of \$30.0 million or less, 5.0% between \$30.0 million and \$55.0 million, and 6.0% on \$55.0 million or more. There are currently two establishments in Iowa that offer dog racing.
- The pari-mutuel tax on simulcast races is 2.0% of the gross sum wagered. There are currently three establishments in Iowa that offer wagering on simulcast races.
- On casino games, the State wagering tax is 5.0% of the first \$1.0 million of adjusted gross gambling receipts, 10.0% of the next \$2.0 million, and 22.0% of adjusted gross receipts

over \$3.0 million. If the entity offering gambling is a racetrack, then the maximum rate can increase to 24.0% if the amount of adjusted gambling receipts is \$100.0 million or more. In addition to the three racetracks that offer gambling, there are 14 other casinos in Iowa with gaming subject to the State wagering tax in Iowa.

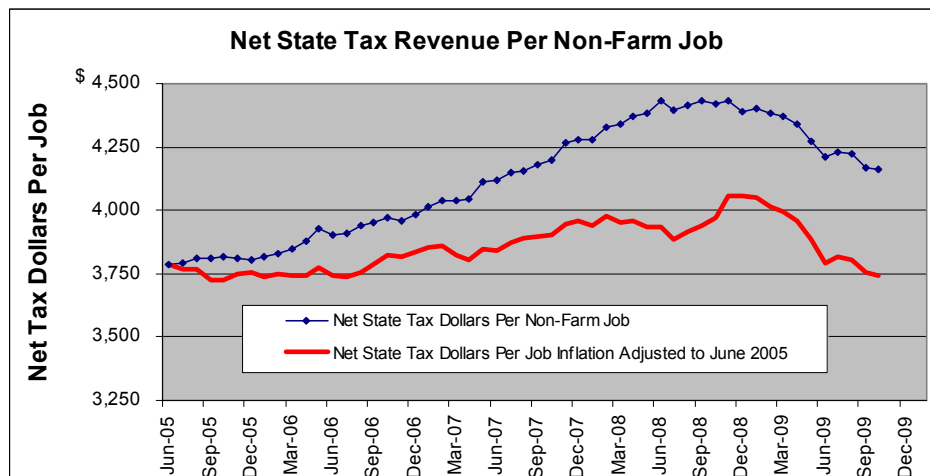
Pari-mutuel /Gambling Timeline

Pari-mutuel gambling on horse and dog races was approved with passage of SF 92 (Pari-mutuel Wagering Act) in 1983 with a tax rate of 6.0%. Simulcasting of races was approved in SF 220 (Pari-mutuel Wagering Changes Act of 1989). This Act also changed the tax on horse and dog racing to its current percentages. The Excursion Boat Gambling Act of 1989 (SF 124) provided for gaming on excursion boats and taxed gambling receipts at 5.0% on the first \$1.0 million, 10.0% on the next \$2.0 million, and 20.0% on gambling receipts above \$3.0 million.

House File 2179 (Gambling at Pari-mutuel Racetracks Act of 1994) authorized slot machines at pari-mutuel racetracks with wagering taxed at 22.0% in the initial year and increasing by two percentage points per year until the rate reached 36.0%. In 2002, the Iowa Supreme Court ruled racetrack casinos could not be taxed differently than excursion boat casinos. In response to the ruling, the General Assembly passed HF 2302 (Gambling Changes Act) which changed the tax rates to the current rates.

Tax Revenue and Employment

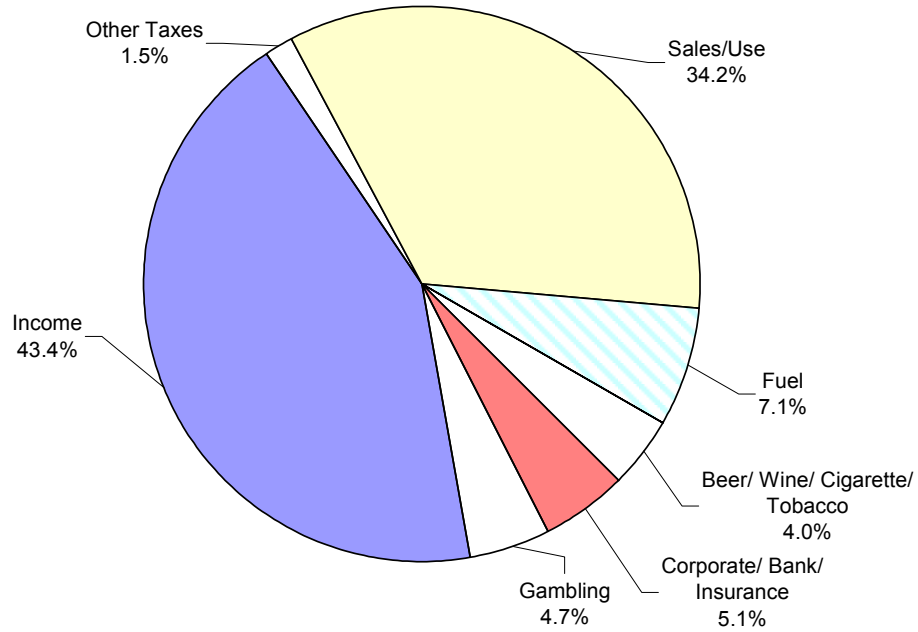
The average reading for Iowa non-farm employment over the 12 months ending October 2009 is 1,491,600, and net State tax receipts over the same 12 months totaled \$6.208 billion, or \$4,162 per non-farm job. This is \$377 (10.0%) higher than the per-job average for July 2005. Over that same time period, inflation (CPI-U) increased 11.1%. Therefore, tax revenue per job has trailed the rate of inflation since July 2005 by roughly 0.3% per year. The following chart provides a historical perspective of tax collections per non-farm job and inflation-adjusted collections per job.



Net State Tax Revenue - Twelve Months Ending November 2009

Net Revenue = \$6.167 Billion

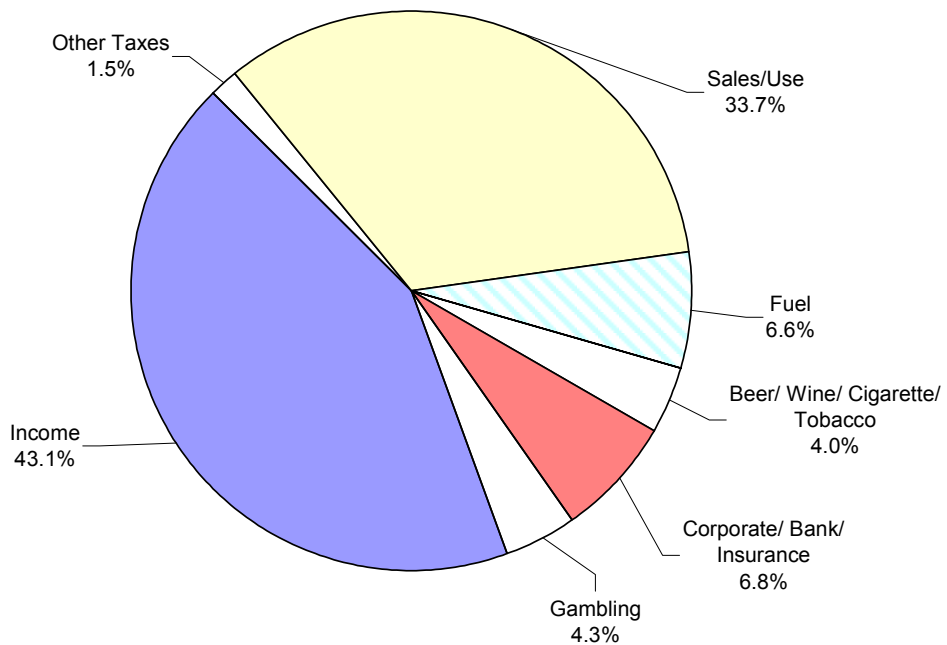
Percentages may not add to 100% due to rounding



Net State Tax Revenue - Twelve Months Ending November 2008

Net Revenue = \$6.756 Billion

Percentages may not add to 100% due to rounding



Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - Columns and Rows may not add due to rounding

Net Tax by Tax Type	Previous 12-Month Period Total	Most Recent 12-Month Period Total	12-Month \$ Change	12-Month % Change	Month of November 2008	Month of November 2009	November \$ Change	November % Change
Banking	\$ 33.7	\$ 26.5	\$ - 7.2	-21.4%	\$ 0.0	\$ - 0.2	\$ - 0.2	--
Beer & Wine	20.8	21.1	0.3	1.4%	2.0	2.0	0.0	0.0%
Cigarette & Tobacco	249.4	228.2	- 21.2	-8.5%	18.2	17.4	- 0.8	-4.4%
Corporate Income	317.1	208.5	- 108.6	-34.2%	2.9	- 21.1	- 24.0	-827.6%
Fuel	444.2	435.2	- 9.0	-2.0%	38.3	32.5	- 5.8	-15.1%
Gambling	289.9	290.3	0.4	0.1%	18.0	20.8	2.8	15.6%
Individual Income	2,913.0	2,673.4	- 239.6	-8.2%	271.5	264.9	- 6.6	-2.4%
Inheritance	82.2	70.1	- 12.1	-14.7%	5.7	5.4	- 0.3	-5.3%
Insurance	108.4	79.2	- 29.2	-26.9%	1.0	0.0	- 1.0	-100.0%
Other Taxes	6.0	9.5	3.5	58.3%	0.9	- 0.1	- 1.0	-111.1%
Real Estate Transfer	16.4	13.6	- 2.8	-17.1%	1.3	1.1	- 0.2	-15.4%
Sales/Use	2,274.7	2,111.0	- 163.7	-7.2%	281.4	277.3	- 4.1	-1.5%
Total Net Taxes	\$ 6,755.8	\$ 6,166.6	\$ - 589.2	-8.7%	\$ 641.2	\$ 600.0	\$ - 41.2	-6.4%
Gross Tax & Refunds								
Gross Tax	\$ 7,627.5	\$ 7,480.4	\$ - 147.1	-1.9%	\$ 707.8	\$ 703.9	\$ - 3.9	-0.6%
Tax Refunds	\$ - 871.8	\$ - 1,313.8	\$ - 442.0	50.7%	\$ - 66.6	\$ - 104.1	\$ - 37.5	56.3%
Net Tax Receipts by Fund								
State General Fund (GF)	\$ 5,786.3	\$ 5,237.0	\$ - 549.3	-9.5%	\$ 557.5	\$ 522.5	\$ - 35.0	-6.3%
Road Use Tax Fund	\$ 709.4	\$ 691.2	\$ - 18.2	-2.6%	\$ 59.9	\$ 51.8	\$ - 8.1	-13.5%
Non-GF Gambling	\$ 228.1	\$ 222.6	\$ - 5.5	-2.4%	\$ 17.8	\$ 20.6	\$ 2.8	15.7%
Other State Funds	\$ 31.9	\$ 15.8	\$ - 16.1	-50.5%	\$ 5.9	\$ 4.9	\$ - 1.0	-16.9%
Local Option Taxes *	\$ 738.5	\$ 790.7	\$ 52.2	7.1%	\$ 85.0	\$ 65.4	\$ - 19.6	-23.1%

* Sales, income, and hotel/motel. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

Tax Categories Used in Table

Franchise (Bank) Tax: Taxes on banks are deposited to the State General Fund. State credit union tax is included on this line also.

Beer & Liquor Tax: Taxes on beer, liquor, and wine are deposited to the State General Fund, the Liquor Control Fund, and a small amount is deposited to a Department of Economic Development fund for wine promotion.

Cigarette & Tobacco Tax: Cigarette and the tobacco products tax revenue is deposited to the State General Fund.

Corporate Income Tax: All corporate tax is deposited to the State General Fund.

Motor Vehicle Fuel Tax: All motor vehicle fuel tax is deposited to one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

Gambling Tax: The first \$6.0 million of gambling tax revenue each fiscal year is deposited to the State General Fund (increased to \$66.0 million beginning FY 2010). Other funds receiving deposits of gambling tax revenue over the last 24 months include the School Infrastructure Fund, the Rebuild Iowa Infrastructure Fund, The Gambler's Assistance Fund, the County Endowment Fund, and the Vision Iowa Fund.

Individual Income Tax: Most individual income tax revenue is deposited to the State General Fund. A total of \$4.0 million per year is deposited to the Workforce Development Fund (\$4.0 million). An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited to a State fund. That revenue is not included here.

Inheritance Tax: All inheritance tax is deposited to the State General Fund.

Insurance Premium Tax: All insurance premium tax is deposited to the State General Fund.

Other Taxes: Other taxes include brucellosis eradication property tax (deposited to a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and Department operations).

Real Estate Transfer Tax: Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the State. The State deposits 95.0% to the State General Fund and 5.0% to the Shelter Assistance Fund. The distribution of real estate transfer tax revenue changes beginning FY 2010, when the State General Fund percentage begins a decline to 65.0% by FY 2015.

Sales/Use Tax: General sales/use tax is deposited to the State General Fund, while most vehicle use tax is deposited to the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax was converted to a fee structure. To allow continuity of data, revenue from the fee structure is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted as part of the net sales/use tax calculation.

Local Option Taxes: Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Starting FY 2009, the SILO tax was converted to a 1.0% statewide tax and the SILO was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount.

Report Database

The database for this report is the State accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.